
Department of Human Services

Introduction

The Department of Human Services (DHS) is solely responsible by statute for administering the State's public assistance and welfare programs. Most of these programs are administered through local county or district departments of social services. The Department also manages programs in the areas of youth corrections, mental health, rehabilitation, and developmental disabilities. In terms of appropriations, the Department was the fourth largest of the State's 22 departments in Fiscal Year 1997. In terms of personnel, the Department had 7,570.3 full-time equivalents or FTE (4,361.2 state; 3,209.1 county) and expended approximately \$1.1 billion during the year.

We reviewed and tested the Department's internal accounting and administrative controls, and evaluated compliance with state and federal rules and regulations. While we found the Department had adequate controls overall, we noted continuing concerns in the fiscal management of grant activity related to cash draws made for federal programs. We also noted some issues regarding the use and treatment of federal indirect cost reimbursements and the need for formalized contracting for vendor services in the Division of Disability Determination Services.

Implement a More Comprehensive Fiscal Management System for Federal Programs

The Department administered 83 different federal programs during Fiscal Year 1997. Federal expenditures for these programs totaled about \$569 million. Accounting for these programs is divided between the Program Accounting Section and the Cash Management Section. The Program Accounting Section primarily accounts for expenditures and earned revenues of all federal programs, while the Cash Management Section determines the amount and timing of the federal cash draws. Cash Management staff also execute all draws on federal grant awards.

From the State's point of view, timely request of federal funds is important because this minimizes the time that general funds are used for federal programs in cases

where federal reimbursement is appropriate. State Fiscal Rules require that agencies make draws of federal funds as soon as possible after the use of funds.

The transfer of federal funds from the federal government to states for reimbursement of federal program expenditures is also governed by the federal Cash Management Improvement Act (CMIA). The purpose of CMIA is to ensure that funds are transferred to the State as close as possible to the time the State makes the related expenditures. Under CMIA, if the federal government does not reimburse the State in a timely manner, the federal government could be charged interest, providing the State made its reimbursement request in a timely manner. Conversely, the State could be charged interest for requesting federal funds prior to making program expenditures. The Department had 14 programs that were under CMIA during Fiscal Year 1997. These programs accounted for about \$503 million, or 88 percent of the Department's total federal expenditures.

Department Continues to Work on Cash Management Issues

We identified problems with the Department's cash management process during the Fiscal Year 1995 and 1996 audits. During the Fiscal Year 1997 audit we found some improvements but continued to note problems in this area. Our concerns are related to the need for improved procedures for grant monitoring and the Department's methodology for identifying and executing drawdowns of federal funds to reimburse state general fund expenditures. We did not note problems with federal program expenditures reported on COFRS.

The Department staff indicated that they continued efforts to improve the cash management process during Fiscal Year 1997. Specifically, they expanded the use of a cash management database among the Cash Management and Program Accounting areas. This has allowed the Program Accountants to more easily analyze earned revenues and expected cash draws for federal programs and to resolve differences. Staff were also able to implement an improved system to ensure account coding was consistent between requests for cash draws and the subsequent cash receipts. This is important for accurately tracking the use of various federal grant awards. However, the new system did not prove effective for the draw requests based on disbursements to the counties, which receive the majority of federal funds expended by the Department.

Towards the end of our Fiscal Year 1997 audit the Department reported that it was making significant organizational and procedural changes in Fiscal Year 1998 that it believes will successfully address problems with fiscal oversight of federal programs and the cash management process. We commend the Department for these actions, and we will evaluate the effectiveness of these actions in our Fiscal Year 1998 audit.

Good management of state and federal funds is a critical function for the State from both a legal and business perspective. Because the Department receives a large portion of the total federal funds provided to the State, the Department plays a significant role in the State's cash management. For example, in Fiscal Year 1997 the Department received about 20 percent of the nearly \$2.8 billion in federal funds the State received.

Establish Increased Oversight and Coordination of Grant Activity

The Department needs to strengthen the overall fiscal management system for federal programs in the following areas.

The Department needs to ensure that sufficient systems and controls are in place to monitor the full range of grant activity. Currently Program Accounting staff perform a monthly reconciliation for expenditures, earned revenues, and *expected* cash draws for federal programs. The reconciliation does not include the *actual* cash requested or received for programs; Cash Management staff oversee these activities. Program Accounting staff include actual cash draws only in reconciliations performed at fiscal year-end. In other words, neither Program Accounting nor Cash Management staff routinely perform a reconciliation that integrates all grant activity including expenditures, earned revenue, expected and actual cash draws, accounts receivable, and available balances for federal awards. Given the large number of programs and dollars involved, we believe that an integrated reconciliation should be prepared monthly to help ensure that problems are identified and resolved in a timely manner throughout the fiscal year.

The Department needs to ensure that appropriate information is communicated among Program Accounting and Cash Management staff. We found that, in part because of system weaknesses, Cash Management staff made numerous manual overrides to and transfers within the automated grant accounting system on COFRS during Fiscal Year 1997. One of the major causes of the overrides was the Department's effort to develop a new system to facilitate draws for county expenditures. Due to problems with the new system, the Department erroneously overdrew five federal programs during the year. This resulted in credit balances in some of the Department's accounts receivable for federal programs. As a result, Cash Management staff transferred credit balances for these programs from the receivable account to a payable account. The transferred balances ranged in total from \$22 million to \$38.5 million during January through May 1997 for various CMIA grants.

Program Accounting staff were not notified of these transfers or adjustments on a timely basis, although the changes often affected cash draws. Since Program Accounting staff include expected cash draws in their reconciliation process, it is essential that such information be communicated to them promptly.

The Department needs to improve its methodology for identifying the amount and timing of cash draws and for executing cash draws in accordance with the timing requirements issued by the State Treasurer and required by State Fiscal Rules. For the sample of transactions we tested, we found that most of the time the Department was not in compliance with the cash draw instructions issued by the State Treasurer under CMIA for receiving federal reimbursement. The results of our testing and its implications are discussed below.

Draw Pattern Does Not Meet Requirements

To determine whether the Department's draw pattern was in accordance with the requirements issued by the State Treasurer, we tested 23 cash draws for payments of federal program costs totaling about \$27.7 million. The Department made 15 of these payments through the issuance of warrants, while the other 8 were made by electronic fund transfers (EFTs). We found the following:

Warrants:

- 10 out of 15 draws (67 percent) were made early; the draws were made an average of 1.8 business days early.
- 5 out of 15 draws (33 percent) were made on time.

Therefore, for the sample tested for warrants the Department was not in compliance with the State Treasurer's draw requirements in 67 percent of the cases. While this indicates the need for further efforts, this is an improvement over Fiscal Year 1996, when we found in the draws tested for warrants that the Department was out of compliance 78 percent of the time for the sample tested, and in most cases the draws were late.

EFTs:

We were unable to determine with certainty whether or not the Department was meeting the State Treasurer's draw requirements for EFTs, because the Department was unable to provide sufficient evidence to link sample EFTs tested to the specific cash receipts. Under CMIA, state agencies are required to maintain this information to ensure compliance with timing requirements. On the basis of the best information available to us, we found the following for the sample of EFTs tested:

- 3 out of 8 draws (38 percent) were made early.
- 4 out of 8 draws (50 percent) were made late; the draws were made an average of 6.5 business days late.
- 1 out of 8 draws (12 percent) was made on time.

Therefore, for the sample tested for EFTs the Department was not in compliance with the State Treasurer's draw requirements in 88 percent of the cases. In the case of the three draws that were early, one of the draw requests was made one day early, and in the other two cases, we were unable to determine how early the funds were drawn. This is because the Department had drawn federal funds in excess of its expenditures in a prior period.

Implications of Cash Draw Testing Results

Under the federal Cash Management Improvement Act, drawing federal funds early is a concern because this means the State is requesting federal funds prior to making the related disbursement. This is prohibited under CMIA and could result in federal interest charges to the State, depending on the State's overall pattern of drawing federal funds for these grants. From the federal point of view, late draw requests are not a particular concern.

From the State's point of view, however, late draw requests are a concern because it means that the State does not receive reimbursement as soon as it could for costs that are fronted for federal programs using general funds. This means the State loses the opportunity to earn additional interest on those funds. We calculated the opportunity cost, or the potential interest lost to the State due to the Department's late draws for EFT payments to the counties. These payments to the counties constitute roughly 75 percent of the \$569 million in federal funds expended by the Department. In our testing of EFTs, half of the draws were made late, on an average of 6.5 business days. Although our sample was not statistically based, if the Department regularly drew federal funds 6.5 business days late for 50 percent of its EFT transfers to counties, we estimated that this represents a loss of roughly \$190,000 in interest to the State during Fiscal Year 1997.

Good Fiscal Management Can Decrease Certain Risks and Aid the State's Cash Management

A more centralized fiscal management process will help the Department to lessen certain risks to the State. Specifically, a more integrated monthly reconciliation process can decrease the risk of loss or misuse of funds because it will enable the Department to recognize and correct grant-related problems on a more regular basis. For example, such a process could help with a more timely identification of posting errors among grant awards. These errors need to be resolved in a prompt manner, since federal grant awards must be used within specific time frames.

In terms of cash management, good business practices require that an entity use its cash efficiently. For the State, one way to accomplish this is to ensure that cash draws for federal reimbursement are made as soon as appropriate after general funds are used for federal program expenditures.

Recommendation No. 6:

The Department of Human Services should develop and implement a more comprehensive fiscal management system for federal programs. This should include, but not be limited to:

- a. Designating a central point of responsibility and accountability for the activities performed by the Program Accounting Section and the Cash Management Section that oversees and coordinates all aspects of fiscal management of federal programs including expenditures, earned revenues, cash draws, cash receipts, related account balances, and federal awards.
- b. Placing in operation an improved methodology for the cash management process that identifies the amount and timing of cash draws and tracks information linking specific disbursements to cash draws and cash receipts.
- c. Implementing an integrated monthly reconciliation process that includes all program-related financial activity such as expenditures, earned revenues, expected and actual cash draws, and cash receipts.
- d. Establishing better controls over fiscal management to ensure that the Department meets state and federal laws and regulations.

Department of Human Services Response:

- a. Agree. Starting in January 1997, the Department began working toward a central point of responsibility for cash management activities. To date, the items the Department has done to meet this goal are:
 - 1. Conversion of the duties of an existing position enabled us to transfer the monitoring of cash management to the Program Accounting Section.
 - 2. The position designated for cash management was filled in May of 1997.
 - 3. The training of the person hired in May of 1997 to assume the duties of monitoring cash management was completed in December of 1997.
 - 4. Establish a database for queries by program accountants for the purpose of establishing information to reconcile cash management draws.
 - 5. Upgrade of the accounting computers for the purpose of establishing the capacity for program accountants to make queries into the database.

The foregoing has resulted in a change in the section within the accounting division that is assigned the responsibility for cash management.

- b. Agree. The response to “1.a.” puts into place a cash management process with the purpose of identifying an amount and timing for cash draws. The new process lists the specific disbursements which are summed daily to an aggregate amount and serves as a basis for the cash draw.
 - c. Agree. We have in place a monthly reconciliation process for federal program-related expenditures and earned revenues. We are developing a reconciliation process for cash draws.
 - d. Agree. We believe the above changes will establish better controls over cash management.
-

Purchase of Services Needs Improvement Within Disability Determination Services

The Division of Disability Determination Services (DDS) within the Department assists the U.S. Social Security Administration (SSA) in determining if individuals are eligible for federal disability insurance. In order to make these determinations, the Division pays vendors (physicians) to perform examinations of disability insurance claimants. Examinations are needed when the medical evidence provided by the claimant's physician is inadequate. Examinations are 100 percent federally funded under the Social Security - Disability Insurance program (CFDA #96.001). The Department received nearly \$14 million under this program in Fiscal Year 1997.

The Division's current method for acquiring personal services for claimants' examinations is to use an Authorization for Diagnostic Services form. Staff consider this form to be a one-time contract between the State and the vendor for each claimant. Although this form does indicate the claimant's name, type of examination to be performed, and the price to be paid for the service, the form does not meet requirements for state-approved contracts.

The Division has established a fee schedule that it follows when paying physicians for medical procedures related to consultative exams. This schedule outlines different rates to be paid for each type of procedure depending on time involved, complexity of the procedure, and geographic area.

In Fiscal Year 1997 the Division had 351 vendors listed on its computer database. The database provides a vendor list for each exam based on historical performance data, type of exam required, proximity to the patient, and appointment availability. Disability examiners then employ personal judgment in selecting a vendor based on their prior knowledge of or familiarity with the vendor.

Our audit identified two main concerns with the Division's procedures for purchasing personal services. First, the Division does not use a competitive bidding process and state-approved contracts when obtaining services from vendors receiving significant amounts of state business. Second, the Division does not regularly review or evaluate its fees.

Ten Vendors Receiving Over \$25,000 Each Did Not Have Contracts

We found that the Division is not using state-approved contracts or a competitive bidding process for purchasing services from vendors. State Fiscal Rules and federal procurement procedures require an agency to negotiate and process state contracts when acquiring personal services over \$25,000, and state statutes require state contracts to be awarded through a competitive bidding process, except for specific circumstances. During Fiscal Year 1997 the Division paid over \$2.2 million to 351 consultative exam vendors. Of these 351 vendors, 10 were paid over \$25,000. The Division had not established state-approved contracts with any of these ten vendors. DDS paid over \$1.7 million, or 76 percent of its total expenditures for consultative examinations, to these ten vendors.

Among these ten vendors, we noted one physician who received about \$111,000 in Fiscal Year 1997 for consultative exams. In another case, a medical conglomerate employing 25 doctors received over \$1 million, or 45 percent of the total amount expended by the Division for exams. It might be expected that average fees paid to the conglomerate would be lower because of greater volume. However, the average cost per medical procedure paid to the conglomerate was about \$6 greater, or approximately 6 percent more, than the average cost per procedure paid to the other nine vendors receiving \$25,000 or more in Fiscal Year 1997.

The Division Is Not Adequately Monitoring Its Fees

Although the Division has a fee schedule, the schedule was established nine years ago and may not appropriately reflect current rates. Also, staff reported that they sometimes make informal case-by-case adjustments to the fees based on limited availability of physicians in some geographic areas and the specialization that a procedure may require. Staff also reported that individual negotiations with physicians sometimes result in two different physicians in the same area receiving different fees for the same procedure.

In addition, we noted that federal regulations provide that fees paid for medical procedures should not exceed the highest rates paid by federal or other state agencies for the same or similar types of service. However, Division staff indicated that they do not monitor for this requirement when higher fees are paid than those set out in the fee schedule.

Division Should Review and Improve Procedures for Purchasing Personal Services

Under its current process, the Division is not adequately protecting the State's interest. First, the Authorization for Diagnostic Services form lacks essential elements found in state-approved contracts. For example, the form does not contain an indemnity clause which sets the vendor out as an independent contractor. This clause is important because the State has a third-party liability for the acts of its employees, whereas independent contractors are liable for their own actions. Second, the Division may not be obtaining services in the most cost-efficient manner because it is not using competitive bidding to procure services and monitoring its fee setting and related procedures. Finally, the State is at risk for lawsuits from vendors because the Division is not purchasing services in accordance with state statutes and, therefore, it is not ensuring fair and equitable treatment to all vendors. As mentioned above, one vendor received over 45 percent of the exam expenditures and was paid an average of \$6 more per medical procedure for Fiscal Year 1997. This may create a perception that the Division is not providing other vendors with a fair opportunity to obtain state business or paying vendors in an equitable manner.

Division staff report that they have not used state-approved contracts, since they do not know in advance which vendors they will use. However, we found that the Division has sufficient historical data to anticipate which vendors are likely to receive \$25,000 or more.

By using state-approved contracts, competitive bidding, and monitoring fees, the Division will be able to obtain services in the most cost-efficient manner while complying with state and federal requirements. In addition, the Division will gain assurance that vendors have a fair opportunity to obtain state business.

Recommendation No. 7:

The Department of Human Services Division of Disability Determination Services should review its procedures for purchasing personal services. This review should include:

- a. Competitively bidding in areas where there are available providers to establish a qualified contractors list.
- b. Reviewing the current fee schedule for geographic areas where bids are not solicited, and standardizing procedures for rate adjustments.

- c. Ensuring compliance with federal and state regulations.

Department of Human Services Response:

- a. Agree. The Department will competitively bid in areas where there are available providers.
- b. Agree. The Department will review the current fee schedule and standardize procedures for rate adjustments.
- c. Agree. The Department will seek approval of any new procedures where applicable, from federal authorities and from the State Controller.

State and Veterans Nursing Homes

The Department of Human Services (DHS) is statutorily responsible for the operations of the State's five nursing homes. The homes are located in Trinidad, Florence, Homelake, Rifle, and Walsenburg. All five homes are Medicaid certified and are visited regularly and licensed by the Department of Public Health and Environment. All of the homes except Trinidad are certified by the U.S. Department of Veterans Affairs (VA) to receive federal funds in support of the care of veterans. These four facilities (Florence, Homelake, Rifle, and Walsenburg) are subject to VA regulations and are surveyed annually by VA.

The Department directly supervises and is responsible for the operations of the Trinidad, Florence, Homelake, and Rifle homes. For the Walsenburg facility, the Department has contracted with the Huerfano County Hospital District (District) to operate the home. Under the contract the District has assumed responsibility for financing operating deficits of the home and has a claim on residual assets, if any, after contractual obligations are met.

The following comment and recommendation is from our September 1997 compliance audit of Department of Human Services State and Veterans Nursing Homes.

Report Information on Colorado State Veterans Nursing Home at Walsenburg

The Department of Human Services is required under statutes to submit to the General Assembly an annual report detailing the financial status of each of the State's five nursing homes. However, the Department's report to the General Assembly does not provide accurate financial information on the Colorado State Veterans Nursing Home at Walsenburg. The Department's reporting on the Walsenburg home is inaccurate because the Department uses the State's accounting system, COFRS, as the basis for its report. However, the Walsenburg home's operations are not included on COFRS; only limited information largely reflecting the Huerfano County Hospital District's reimbursement to the State for certain personnel and related services appears on COFRS. As a result of this deficiency on COFRS, the Walsenburg home's operations are also not reported in the State's annual financial statements.

We believe that reporting the Walsenburg home's complete financial activity on COFRS and on the State's financial statements is the correct treatment under accounting standards because the Walsenburg home is a state entity created under state law. Existing statutes make no provision for the home to be recognized as a legally separate entity from the State. The State and the District have mutually agreed that the State owns the home, including the building and the land on which it is located. The federal government requires that the home be state-owned as a condition of receiving federal funds and considers the State to have ownership of the home. In other words, the treatment of the Walsenburg home for reporting purposes should be the same as the other state and veterans nursing homes.

Including the home's activity on COFRS would also address another problem. To date there has not been an audit done on the Walsenburg home in accordance with the federal Single Audit Act. The requirement for this type of audit is stated as part of the postassistance requirements for the federal Veterans State Nursing Home Care Program (CFDA #64.015) under federal regulations for VA-certified facilities, in cases where federal financial assistance exceeds a certain dollar threshold. Since the Walsenburg home's receipts of federal VA funds exceeded the specified threshold for 1995 and 1996, the home should have had this type of audit for those periods. The District's auditors did not perform these procedures during their audits for 1995 or 1996, because they were unaware of these requirements for this particular program. Under federal regulations, noncompliance with requirements can result in loss of funding or other sanctions. If the home were included on the State's financial statements, its activity would become part of the population of transactions covered by the Statewide Single Audit performed by the State Auditor's Office.

Recommendation No. 8:

The Department of Human Services should improve its financial reporting on state and veterans nursing homes by:

- a. Recording on COFRS the financial activity from operations of the Colorado State Veterans Nursing Home at Walsenburg.
- b. Including a full accounting of the Colorado State Veterans Nursing Home at Walsenburg's operations in reports to the General Assembly.
- c. Ensuring that any future contractual arrangements for state and veterans nursing homes provide for inclusion of the home's complete financial information on the State's accounting system and the State's annual financial statements.

Department of Human Services Response:

- a. Disagree. The Colorado State Veterans Nursing Home at Walsenburg's contract with the Huerfano County Hospital District specifies that all revenues and expenses of the Colorado State Veterans Nursing Home at Walsenburg are the responsibility of the contractor and not the State. Given this, the Department believes it would be inappropriate to include the financial operations of this nursing home in the State's financial system.
 - b. Agree. The Department of Human Services will include a full accounting of the Colorado State Veterans Nursing Home at Walsenburg's operations in reports to the General Assembly.
 - c. Disagree. This response is contingent upon legislative direction that the Department plans to seek concerning the current nursing home statutes. These efforts will clarify the Department's level of responsibility and oversight role for the Walsenburg home. The Department will also initiate discussions with the Huerfano County Hospital District to amend the current operating agreement. Items to be reviewed will include ensuring that the District is responsible for fulfilling the "single audit" requirements.
-

The Division of Vocational Rehabilitation

The Division of Vocational Rehabilitation is organizationally located in the Department of Human Services in two of its major offices: the Office of Health and Rehabilitation and the Office of Direct Services. The Division of Vocational Rehabilitation's largest program is its Rehabilitation Services program which assists eligible persons with disabilities in attaining employment. In Fiscal Year 1996 the Rehabilitation Services Program was allocated about \$21 million in federal funds and \$5.5 million in general funds and cash funds exempt for a total allocation of \$26.5 million. The Rehabilitation Services program was allocated 227.5 FTE in Fiscal Year 1996 and is the largest of the Division's programs.

The following comments and recommendations are from our August 1997 performance audit of the Division of Vocational Rehabilitation.

Ensure Compliance with State and Federal Procurement Rules

In Fiscal Year 1996 the Division of Vocational Rehabilitation spent approximately \$13 million on services provided to consumers. These services are provided under the "Rehabilitation Services -- Vocational Rehabilitation Grants to States" (CFDA #84.126). Services provided range from the provision of a bus pass to complex mental health counseling, college tuition, and even surgery. In Fiscal Year 1996 the Division used nearly 5,000 different vendors, or service providers, to serve almost 20,000 clients. The majority of the Division's rehabilitation services are purchased through the Case Service Authorization system. This system allows counselors to purchase many of the services as they are needed for clients without needing several different levels of approval, as is required with State contracts. In this system, counselors use forms that are similar to state purchase orders to approve services for individual clients.

Methods Used to Purchase Services Could Be Improved

Because the Division uses a decentralized system for purchasing services, the Division does not take advantage of the benefits of competitively bidding its services. Benefits of the competitive bidding process include (1) encouraging competition among various providers, (2) allows the Division to maximize the purchasing value of public

funds, and (3) allows the Division to ensure the fair and equitable treatment of all service providers.

The State Procurement Rules state that “agencies may procure services up to a limit of \$25,000 without the benefit of competition.” We found that the Division is not using the bidding process to purchase these services. For example, the Division spent \$381,000 on psychological evaluations in Fiscal Year 1996. Of this amount, one vendor was paid almost \$140,000, or more than 36 percent of the Division’s total expenditures on this service. In addition, this vendor did not provide these services under any type of contract with the Division of Vocational Rehabilitation. Three other vendors were also paid more than \$25,000 each for performing psychological evaluations in Fiscal Year 1996 without having to submit a bid or comply with the requirements of a State contract. This is an inappropriate business practice that may put the Division and the State at risk of litigation from vendors who believe they may have been excluded from participating in State contract work.

In addition to the State Procurement Code, federal regulations require that when purchasing services with federal grant monies, “a state will follow the same policies and procedures it uses for procurement from its non-federal funds.” Therefore, by not complying with the State Procurement Code, the Division is also not in compliance with the federal requirements. If not corrected, this practice could potentially result in the loss of federal funding. In addition, the federal “Common Rule” sets forth the documentation requirements for the procurement process. The “Common Rule” states that, “grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”

We feel that the Division could competitively bid some of the Division’s services and contract with multiple providers to provide those services at specified costs. This will still allow for each consumer to choose from among several service providers and therefore, does not limit consumer choice. In addition, this will allow the Division to take advantage of lower prices and more efficient purchasing of services through the competitive bidding process.

Recommendation No. 9:

The Division of Vocational Rehabilitation should:

- a) Examine the types of services it purchases and develop a process for competitively bidding those services that it is required to under the provisions of the State Procurement Code, State Fiscal Rules, and the Federal Common Rule.
- b) Work with the Division of Purchasing to ensure that its new procedures comply in all respects with the purchasing requirements and that they are using the most efficient methods possible to procure services.

Division of Vocational Rehabilitation Response:

Agree. The Division agrees that it needs a clearer competitive procurement process which demonstrates equal access to State business for all vendors. The Division has been working with the Division of Procurement to improve its methods for purchasing client services. The Division will have its revised procedures in place by October 1, 1997, or as soon thereafter as approved by the Division of Purchasing.

Contract Management Needs Improvement

Contract monitoring has two objectives: (1) to ensure legal obligations are fulfilled by the contractors and (2) to ensure that acceptable levels of service are provided. In Fiscal Year 1996 the Division had contracts with eight vendors, and eight school districts who participated in the School to Work Alliance Program (SWAP). In addition, the Division had 11 inter-agency agreements with school districts to participate in the SWAP program, and also one intra-agency agreement with the Division of Developmental Disabilities Services, and one with Mental Health Services (which covers mental health centers throughout the State).

The Division uses two different methods to monitor its service provider contracts. Three of its contracts with outside vendors and its intra-agency agreements with the Division of Mental Health and Developmental Disabilities Services are monitored centrally by Division staff. For those contracts that the Division monitors centrally,

we found evidence of contract monitoring for both intra-agency agreements, but found evidence of contract monitoring for only two of the three contracts with outside vendors.

The remaining 13 contracts and 11 inter-agency agreements are supposed to be monitored by field office counselors. In fact, in a memo explaining the Division's contract monitoring procedures for those contracts that the Division does not monitor centrally, one staff person said, "there is no monitoring or administrative oversight conducted by the State Office. The State Office does not keep a list of who has been served through each contract nor do they maintain billing information."

According to the federal "Common Rule," "grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts."

Without adequate contract monitoring procedures, the following may result:

- The Division cannot ensure that all contract requirements were met by the service provider. For example, one contracted service provider was to provide marketing and employer development services. At the time of this audit, the Division had not yet checked to ensure that the contractor provided the required number of activities as stated in the contract. Division staff responsible for monitoring this contract did not check to determine whether this contractor complied with all contract requirements until March of 1997, seven months after the end of the contract period (September 1995 through August 1996).
- The Division cannot be sure that it did not pay more than the contract amount to the service provider. For example, in Fiscal Year 1996 the Division contracted with a service provider to provide \$108,000 in supported employment services. In addition to the \$108,000 in contract services, counselors authorized an additional \$222,000 in services for which no contract was used. Of this amount, nearly \$44,000 was for services which can sometimes be categorized as supported employment services. However, it is unclear from the Division's vendor expenditure report whether the \$44,000 in services was for additional supported employment services that should have been added to the original contract.
- The Division cannot determine whether the service provider is providing the quality and quantity of goods called for in the service contract. The State Contract Procedures Management manual states that "a signed contract does not relieve the State of the ultimate responsibility for the quantity and quality

of the goods and services provided. For this reason, an individual, or individuals, should be designated as contract manager(s).”

According to administrative staff, counselors will only authorize services to be provided by service providers who provide high quality services. While counselors agree that they do monitor the quality of services received by their clients through client feedback and client progress reports, they do not believe that it is their responsibility to ensure that certain service providers are complying with the terms and conditions of their contracts, or that the contractor is paid only the amount of its contract. In fact, few of the counselors are familiar with the contracts the Division may use to purchase services from service providers.

Recommendation No. 10:

The Division should:

- (a) Develop a contract administration system, as required by the Federal Common Rule, which includes clear policies and procedures for contract monitoring, including the definition of staff responsible and clearly defined objectives and monitoring activities.
- (b) Ensure that counselors’ practices comply with these policies and procedures in an ongoing way.
- (c) Monitor closely counselor performance in this area for at least the next six months.

Division of Vocational Rehabilitation Response:

Agree. The Division agrees that its contract management practices need review and adjustment on an ongoing basis. The Division intends to implement the following mid-course improvements to its contracts management by October 1, 1997: 1) clarify through policy counselors’ and supervisors’ roles in monitoring services and contracts; 2) train counselors and supervisors on their contract monitoring responsibilities; and 3) incorporate a centralized administrative contract management oversight function to assure counselor monitoring and accountability.
